

Warsaw, 24th November 2004

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY  
COUNCIL  
Held on 23-24 November 2004**

**The Council decided to keep the NBP interest rates unchanged, i.e.:**

- **reference rate 6.5% on an annual basis;**
- **lombard rate 8.0% on an annual basis;**
- **deposit rate 5.0% on an annual basis;**
- **rediscount rate 7.0% on an annual basis.**

**The Council maintains its tightening monetary policy bias.**

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Over the period since the last meeting of the Monetary Policy Council the outlook for the world economy has not changed significantly. In October the influence of high crude oil prices on inflation and economic growth in main world economies became more visible than in the previous months. The annual rates of growth of consumer prices rose from 2.5% in September to 3.2% in October in the USA and from 2.1% to 2.4% in the euro-zone. At the same time the data on GDP growth in 2004 Q3 in the USA, the euro-zone and Japan proved substantially lower than expected. Additionally, the euro-zone saw deterioration in economic sentiment of enterprises and households alike, which mainly resulted from the appreciation of the euro against the US dollar and the lack of improvement in the labour market. In November the prices of oil in the world markets recorded a significant decline, however, at present it is difficult to assess how sustainable these developments are.

According to NBP estimates, GDP growth rate in Poland in 2004 Q3 stood somewhat below 5% and the total value added in Q3 was larger than a year before by 4.5%. What contributed most to the economic growth were the stable consumption dynamics and positive net exports. According to available information investment dynamics were lower than previously expected. Available data do not, as yet, indicate that the positive tendencies in the labour market will be sustained. Although the number of unemployed has further been decreasing, no substantial increase in employment has been recorded. In October the decline in real wages in the corporate sector became stronger. So far, the labour market has not seen the second-round effects of considerably higher inflation expectations, which started to rise in July 2004. It should be noted that in November there was some decrease in inflation expectations (from 4.4% in October to 4.0%).

The annual inflation rate in October 2004 amounted to 4.5%. The inflation rate, higher than the inflation target, primarily reflects price increases associated with Poland's EU accession and hikes in commodities prices in world markets, which is confirmed by the still low core inflation index (2.4% in October 2004). Other core inflation indices stabilized close to levels recorded in September. The persistently high growth rate of producer prices in industry (7.7% y/y) mainly stemmed from a rise in domestic prices as the appreciation of the zloty resulted in a reduction of export prices. Similarly to the previous months, because of a high level of production capacity utilisation, there is still a risk of cost effects feeding through into a rise in consumer prices.

The zloty has been appreciating strongly for the next consecutive month. Significant strengthening of the zloty is conducive to inflation decrease. If this trend persists, it will negatively affect economic growth over the monetary policy transmission horizon.

According to the inflation projection presented in the *Inflation Report* to be published on 30 November 2004, the GDP growth rate in the next two years is expected to stand somewhat lower than 4.5-5.5% forecasted in August. Starting from 2005 the contribution of net exports to the economic growth will diminish - among others, as a consequence of real appreciation of the zloty - while the contribution of investment will rise. The slightly lower than predicted in the August *Inflation Report* rate of economic growth in 2005-2006 mainly results from a now less optimistic outlook for investment dynamics in this period. In the Council's opinion, in the longer term the sustainability of the economic revival will hinge on the implementation of public finance reforms. The lack of necessary reforms may lead to consecutive prudential thresholds of public debt to GDP being surpassed and result in considerably higher risk premium for investing in Poland. This may - through the depreciation of the zloty - be a source of additional inflationary pressure.

The path of future inflation presented in the inflation projection to be published in the November *Inflation Report* is lower than the one shown in the previous *Report*. According to the projection, assuming there is no change in the interest rates, with the 50% probability the inflation rate will remain in the range between 2.5% and 5.2% in 2005 Q4 and between 1.3% and 4.8% in 2006 Q4 (in the August projection the values were 2.8%-5.5% and 1.6%-5.1% for 2005 Q4 and 2006 Q4, respectively). The uncertainty surrounding the central projection is highly asymmetric in 2005 and thus points to a higher probability of inflation running above the central projection. The asymmetry disappears in 2006.

**In the Council's opinion the latest economic data indicate that the balance of risks for future inflation is more favourable than presented in the November inflation projection. This assessment is informed by the sustained strong appreciation of the zloty, however, the Council recognises the uncertainty surrounding the persistence of this trend. The second factor affecting the assessment is the lack of excessive wage growth, which points to limited second-round effects. Nevertheless, the probability of inflation staying above the target of 2.5% over the monetary policy transmission horizon remains higher than the probability of the inflation falling below target. The Council has decided to keep its tightening monetary policy bias.**

The next meeting of the Council will be held on 14-15 December 2004.